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INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEHKO/AMEMBASSY TOKYO 0432
RUEHFK/AMCONSUL FUKUOKA 0004
RUEHNH/AMCONSUL NAHA 0010
RUEHOK/AMCONSUL OSAKA KOBE 0412
RUEHKS/AMCONSUL SAPPORO 0255
RUEHGV/USMISSION GENEVA 0883
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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 004557

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E.O. 12958: DECL: 03/10/2016

TAGS: [ETRD](#) [WTRO](#) [KIPR](#) [PREL](#) [EFIN](#) [CH](#) [JA](#)

SUBJECT: JAPANESE ECONOMIC OFFICERS ON MINISTER NIKAI
VISIT, AUTO PARTS, IPR IN CHINA

REF: A. TOKYO 1010

[1](#)B. NAHA 43

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Classified By: Minister-Counselor for Economic Affairs
Robert S. Luke, Reasons 1.4 (B) and (D).

[1](#)1. (C) Summary. EconMinCouns and Econoff met with Japanese Embassy Economic Counselor Nishimiya and First Secretary Ishikawa to discuss Trade Minister Nikai,s February 21-23 visit to Beijing (ref A) and other issues. Nikai met with Premier Wen Jiabao, State Councilor Tang Jiaxuan, Ministry of Commerce (MOFCOM) Minister Bo Xilai, National Development and Reform Commission (NDRC) officials and Chinese Communist Party Central Committee International Department head Wang Jiarui. Important results included announcement of bilateral discussions on East China Sea maritime and gas exploration issues (the meeting had been previously agreed during the China-Japan Comprehensive Dialogue in early February; the first discussions were conducted March 6-7 in Beijing); agreement for METI to host 300 Chinese trainees over three years; proposal of an annual bilateral conference on energy conservation and environmental issues; and proposal of a conference of thinktank researchers to discuss long-term visions of the bilateral relationship. Bo repeatedly raised historical issues while pressing Japan to grant market economy status to China. He said that Japanese interests would not be served if Japan joined the U.S. and EU complaints about Chinese tariff treatment of auto parts imports. The Japanese Embassy officers said that the probationary period for China to make right its protection and enforcement of intellectual property rights (IPR) has passed. They downplayed Japanese banks, interest in expanding their presence in China. The Japanese Embassy expects its new Ambassador to take up his post in mid-April. End summary.

Historical Burdens and Market Economy Status for China

[1](#)2. (C) Nishimiya and Ishikawa spoke at length about Minister Nikai,s meeting and lunch with MOFCOM Minister Bo Xilai. Bo lectured Nikai on historical issues, in a manner different than when the same issues were raised by Premier Wen Jiabao. Nishimiya considered Bo,s manner as a tactical

decision, trying to exert pressure on the "pro-China" Nikai to work harder on Bo,s agenda, in which granting of market economy status is clearly Bo,s highest priority. (Comment: Under China,s WTO accession agreement, market economy status, or MES, makes it more difficult for foreign companies and countries to seek anti-dumping protections against inexpensive imports from China. MES would also be a nice sound bite for Bo at home to show that trading partners are recognizing progress in China,s transition away from its past centrally-planned model of economic development. End comment.) Nikai told Bo that he would look into the MES matter. Nishimiya said the interpreter used in this meeting might have been more forthcoming about the speed of looking into the matter in his translation than Minister Nikai,s actual words. Nishimiya explained that he saw no particular movement in Japan to grant MES to China, and that Nikai needs to increase his understanding of the issue and discuss the matter with METI officials.

Annual Conferences on Energy Conservation and Environmental Issues?

13. (C) Nikai proposed an annual bilateral public-private conference on energy conservation and environmental issues with a first session in Japan in May. METI and private sector representatives would constitute the Japanese delegation, Nishimiya explained, with representatives from MOFCOM, the NDRC and Chinese oil companies on the Chinese side. Energy security is not among the proposed topics, Nishimiya replied to Econoffs, question. MOFCOM Minister Bo accepted in principle to visit Japan in May, but underscored that first he would need approval from central government higher-ups for such travel. Recounting Bo,s reply, Nishimiya speculated that this again was a tactical move by the MOFCOM Minister, wondering whether Bo wished to continue playing the history card or continue pounding Nikai on the

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MES topic before rendering a final decision on whether to travel to Japan in May. Nishimiya also recalled the spring 2005 visit to Japan by Vice Premier Wu Yi, who scrapped planned meetings in Tokyo to return to China after Prime Minister Koizumi announced that he would continue to visit the Yasukuni Shrine. Nishimiya further noted that MOFCOM and the NDRC might vie for leadership of the Chinese delegation at such a conference, and that those two Chinese agencies had provided May dates differing by two weeks in suggesting possible conference times to Nikai. Nishimiya predicted that MOFCOM,s proposed dates would ultimately prevail and that Bo would make sure that he is in Japan at the time of the conference, even if he does not attend the conference. Nishimiya said that Japanese private sector representatives had offered ideas about such a conference to Premier Wen Jiabao during an autumn 2005 meeting and the issue had been raised again at the end of 2005. Bo probably feels pressure from the Chinese oil sector to engage in such a conference, Nishimiya further commented.

That Ploy about Chinese Tariffs on Auto Parts

14. (C) Bo and Nikai discussed Japanese concerns about China,s use of import tariffs on automobile parts. (Note: China Customs sometimes charges the higher import duty due on whole automobiles if it believes that imported automobile parts are intended to be assembled into complete cars in China rather than to replace broken or worn-out parts; WTO rules call for imposition of tariffs at the port of entry based on the product classification and not based on the post-importation end use of a product. End note.) According to Nishimiya, Bo said that the "so-called auto parts tariff issue" is a scheme developed by the United States and the European Union to compete with super-competitive Japanese automobile companies in China. Japan has nothing to gain from joining in this game, Bo warned Nikai. Bo again alluded to history and said that it is not in Japan,s interest to go down the road of bringing anti-dumping cases against Chinese

companies or to maintain tough export controls on sales of Japanese goods to China. It is very much in Japan,s interest to loosen its export controls and accept that China rightly deserves market economy status. Nishimiya commented that Bo,s statements assumed that because Japan brings few if any anti-dumping cases against China, Japan does not need easy recourse to potential anti-dumping actions against Chinese goods. China has launched more than fifty anti-dumping actions against Japanese goods in recent years, Nishimiya claimed.

15. (C) Asked to summarize Japanese auto companies, views on the Chinese tariff issue, Nishimiya said Bo,s analysis that most Japanese suppliers to Japanese auto manufacturers are shifting production to China is largely correct, particularly with respect to Toyota and its suppliers. Still, the Government of Japan is considering analyses of the Chinese practice and views from Japanese companies, and is presently undecided on whether to participate in a WTO challenge on this matter. Many in the GOJ believe that a good case can be made against the Chinese practice.

16. (C) Nishimiya also highlighted that one should not underestimate the Chinese Government's willingness to address trade issues. He used China,s tariff classification of certain photographic films as an example, saying that Japan and China had been able to reach an accord on that vexatious issue. Agreement on a guiding principle for the solution had been the crucial first step, in this case, that China could continue to impose a specific duty on films - so long as the ad valorem equivalents of China,s specific duties were the same as China,s ad valorem tariff bindings in the WTO. Once that face-saving principle had been agreed, agreements on which date to use over what time spans, calculation methods and annual reviews followed quickly. Japan believes it won the outcome, and China likewise believes it prevailed. The applied duties on such photographic film imports from Japan have fallen to one-tenth their previous values, Nishimiya said

17. (C) Minister Nikai also proposed to Bo that METI host
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100 trainees from China per year for three years, which Bo accepted. Bo proposed that Chinese and Japanese think tanks should engage in discussions of the long-term view of Sino-Japanese relations, to which Nikai replied that is a good idea. Nishimiya and Ishikawa said they did not know any more details about Bo,s proposal.

18. (C) Nishimiya lamented that Bo had grabbed all that Nikai,s delegation offered, declined all that the delegation wanted, blasted Japan on history, but Nikai had left Beijing happy.

Chinese Media Portrayal of Nikai,s Visit

19. (C) Ishikawa recounted that Tokyo and the Nikai delegation had much interest in how China would report his visit to Beijing. People's Daily and Xinhua had factually reported that Premier Wen met earlier that day with the German Foreign Minister and the Japanese Trade Minister, full stop. Ishikawa said that this intentional limit to the content of official media reporting on Nikai,s visit reflected the sensitive status of bilateral relations while neatly balancing the reporting with that on another important high-level visitor.

Intellectual Property Rights and Standards Challenges in - and from - China

10. (C) Asked about Japanese companies facing IPR difficulties in China, Nishimiya observed that the IPR situation could be worse. He recounted stories of near-identical trademarks being registered easily in Hong Kong and then marketed in China in competition to genuine

foreign-brand products. However, Panasonic/Matsushita has its own IPR enforcement unit that works closely with local law enforcement officials and that company, at least, has scored some important successes in protecting its IPR in China. USTR is right, Nishimiya said, the time for China,s probation to get IPR protection right is over. Nishimiya and Ishikawa speculated that the Chinese policy of "autonomous innovation" announced to some fanfare this winter could lead in several years time to a flood of Chinese patent applicants at the U.S. Patent and Trademark Office. China is also increasingly looking at global standards issues, which should be setting off warning bells, Nishimiya continued. He predicted lawsuits in overseas jurisdictions by Chinese persons and entities challenging foreign standards. If Japan,s technical barriers to trade are thought by China to lack sound scientific bases, China could be ready to challenge those Japanese practices before the WTO in another four or five years.

Japanese Banking Interest in China?

¶11. (C) EconMinCouns noted China,s WTO accession commitment to further liberalize financial services in December 2006 and asked about Japanese banks, interest in expanding in China. Nishimiya replied that while Tokyo Mitsubishi Bank has been reported to have an interest in investing in a Chinese bank, in the view of the Japanese Embassy most Japanese banks are not interested in markets outside of Japan. Japanese banks are institutions that do not reward innovation and are risk averse. To the extent that Japanese banks have established operations in China to date, that is a result of following Japanese investors to China in order to service them. Japanese banks are largely satisfied with that situation. As Japanese businesses in China increasingly demand transactions in renminbi, Japanese banks will move into that service as regulations allow them to do so.

New Japanese Ambassador Coming to Beijing

¶12. (SBU) The Japanese Embassy officers said that a new Japanese Ambassador would arrive in Beijing in mid-April (see ref B). Regarded as a China hand, the new Ambassador has previously served as Deputy Chief of Mission in Beijing, departing that assignment about five years ago.
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